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AT SEATTLE
CLERK U.S. DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
DEPUTY

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

GOTHAM INVESTORS, on behalf of itself and
all others similarly situated,

Plaintiff,

v.

PAULA ROSPUT REYNOLDS, JOSEPH W.
BROWN, ROBERT S. CLINE, PETER L.S.
CURRIE, JOSHUA GREEN III, JOHN S.
HAMLIN, KERRY KILLINGER, GARY
LOCKE, GERARDO I. LOPEZ, WILLIAM G.
REED, CHARLES R. RINEHART, JUDITH M.
RUNSTAD, SAFECO CORPORATION, and
LIBERTY MUTUAL INSURANCE
COMPANY,

Defendants.

No. C08-0940 BAT

NOTICE OF REMOVAL

SEA/SS
NO ISS
SEA/SS
TO: The Clerk, United States District Court
for the Western District of Washington at Seattle

A. Removal of State Court Action

Defendants Paula Rosput Reynolds, Joseph W. Brown, Robert S. Cline, Peter L.S. Currie, Joshua Green III, John S. Hamlin, Kerry Killinger, Gary Locke, Gerardo I. Lopez, William G. Reed, Charles R. Rinehart, Judith M. Runstad (collectively, the "Director Defendants"), Safeco Corporation ("Safeco") and Liberty Mutual Insurance Company ("Liberty Mutual") are all of the

NOTICE OF REMOVAL – 1
Case No. C08-

63511-1006/LEGAL14377038.1

ORIGINAL

Perkins Coie LLP
1201 Third Avenue, Suite 4800
Seattle, WA 98101-3099
Phone: 206.359.8000
Fax: 206.359.9000

1 defendants in the above-entitled civil action, which was commenced on or about June 2, 2008,
 2 and is still pending in the Superior Court of the State of Washington for King County (the
 3 "Superior Court"), as Cause No. 08-2-18681-4 SEA. Through this Notice, defendants pray that
 4 this action be removed to this Court from the Superior Court.
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7 **B. Bases for Jurisdiction in Federal Court**

8 Jurisdiction in this Court is premised on both federal question jurisdiction and jurisdiction
 9 as provided by the Class Action Fairness Act of 2005 ("CAFA").
 10
 11

12 **1. Federal Question Jurisdiction**

13 The Complaint alleges that Safeco and the Director Defendants breached fiduciary duties
 14 and duties of disclosure that they owed to Safeco's shareholders in connection with (1) the
 15 proposed merger of Safeco into Liberty Mutual, (2) the concomitant purchase by Liberty Mutual
 16 of all outstanding stock owned by Safeco's shareholders, and (3) the proxy materials to be
 17 provided to Safeco's shareholders pursuant to Section 14(a) of the Securities Exchange Act of
 18 1934 ("Exchange Act").¹
 19
 20

21 Although plaintiff purports to assert only claims under state law, the reality is very
 22 different. As a publicly traded corporation registered with the SEC, Safeco's duty of disclosure,
 23 and that of its directors, cannot be determined without reference to federal securities laws and
 24 regulations. Consequently, pursuant to the Artful Pleading Doctrine, plaintiff's claims should be
 25 deemed claims arising under federal law over which this Court has original jurisdiction.
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28 The Artful Pleading Doctrine holds that, although a plaintiff generally is the master of his
 29 or her complaint, the plaintiff nevertheless "may not avoid federal jurisdiction by omitting from
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 51 ¹ The Preliminary Proxy Statement was filed with the Securities and Exchange Commission ("SEC") on or
 about May 23, 2008.

the complaint allegations of federal law that are essential to the establishment of his claim."

Lippitt v. Raymond James Financial Services, Inc., 340 F.3d 1033, 1041 (9th Cir. 2003) (internal quotation marks and citation omitted). Among the situations in which it is appropriate to invoke the Artful Pleading Doctrine to support removal and establish federal jurisdiction are cases, like this one, in which plaintiff's state-law claims implicate a substantial federal question. Id. at 1042. A state-law claim implicates a substantial federal question when

- (1) a substantial, disputed question of federal law is a necessary element of the well-pleaded state claim, or the claim is an inherently federal claim articulated in state-law terms; or (2) the right to relief depends on the resolution of a substantial, disputed federal question.

Id. (internal quotation marks, citations and emphasis deleted).

Here, it is not possible to resolve plaintiff's claims without first making determinations concerning disputed issues of federal law. Specifically, the Court will have to make determinations concerning the scope and extent of disclosures that the federal securities laws require Safeco and the Director Defendants to make in the proxy context. See, e.g., 15 U.S.C. § 78n(a); 17 C.F.R. §§ 240.14a-1 through 240.14a-101. Furthermore, because plaintiff alleges that "defendants [acted] to conceal material information from plaintiff and Safeco's other public shareholders," Complaint ¶ 1, the anti-fraud provisions of the Exchange Act are also implicated. 15 U.S.C. §§ 78j(b), 78n(e); see also 17 C.F.R. §§ 240.10b-5, 240.14a-9.

In accord with the Artful Pleading Doctrine, plaintiff's claims arise under the laws of the United States and this Court has original subject-matter jurisdiction under 28 U.S.C. § 1331.

2. CAFA Jurisdiction

This Court also has subject-matter jurisdiction based on CAFA.

CAFA applies to class action lawsuits, such as this one, where the aggregate number of persons in all proposed plaintiff classes is 100 or more and where the primary defendants are not state officials or entities against whom the Court may be foreclosed from ordering relief. 28 U.S.C. § 1332(d)(5); Serrano v. 180 Connect, Inc., 478 F.3d 1018, 1020 (9th Cir. 2007).

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Case No. C08-_____

Assuming these threshold requirements are satisfied, CAFA vests federal courts with original jurisdiction if (1) the aggregate amount in controversy exceeds \$5 million and (2) any class member is a citizen of a state different from any defendant. 28 U.S.C. § 1332(d)(2); Serrano, 478 F.3d at 1020-21.

Each of these requirements is satisfied here:

- There can be no serious doubt that the proposed class consists of more than 100 persons. Plaintiff itself alleges that Safeco has over 92 million shares issued and outstanding, and that class members "are so numerous and geographically dispersed that joinder of all of them would be impracticable." Complaint ¶ 23.
- None of the defendants are state governmental entities.
- Plaintiff challenges and/or seeks rescissory damages related to a proposed merger that involves the purchase by Liberty Mutual of more than 92 million shares of Safeco stock at a price of \$68.25 per share. Even deducting shares held by persons excluded from the class definition, the aggregate amount in controversy far exceeds \$5 million.
- There is only one named plaintiff (whose state of residence is not identified in the Complaint) and defendants are residents of at least two different states—Washington (Safeco) and Massachusetts (Liberty Mutual). Complaint ¶¶ 6, 19.² Because plaintiff does not purport to be a corporation, it cannot be a resident of

² The Complaint does not identify the state of residence of the Director Defendants. In a parallel class action previously filed in this Court, which makes essentially the same allegations as the Complaint in this action, the plaintiff alleged that the Director Defendants are domiciliaries of four different states—Washington, New York, California and Texas. See Complaint ¶¶ 7-19, Loring v. Brown, No. C08-0733 RSM (filed May 9, 2008) ("First Safeco Class Action"). On June 6, 2008, the First Safeco Class Action was reassigned to Judge Zilly and is identified on the Civil Cover Sheet as the related case at Docket No. C08-0733 TSZ.

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Case No. C08-_____

1 both Washington and Massachusetts. Therefore, under CAFA, this final
 2 requirement for jurisdiction is met.
 3

4 Plaintiff nevertheless contends that this action is not removable under CAFA because it
 5 "challenges the internal affairs or governance of Safeco." Complaint ¶ 4. In making this
 6 contention, plaintiff ignores the language that introduces CAFA's internal affairs or governance
 7 exception, and which limits that exception to cases that involve only claims concerning internal
 8 affairs or corporate governance issues. In pertinent part, the applicable CAFA provision states:
 9
 10
 11

12 Paragraph (2) shall not apply to any class action that solely
 13 involves a claim—
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 15 ...
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18 (B) that relates to the internal affairs or governance of a
 19 corporation or other form of business enterprise and that arises
 20 under or by virtue of the laws of the State in which such
 21 corporation or business enterprise is incorporated or organized[.]
 22
 23

24 28 U.S.C. § 1332(d)(9) (emphasis added).³
 25

26 This action does not solely involve claims that relate to the internal affairs or governance
 27 of a corporation. The Complaint contains claims against Liberty Mutual for aiding and abetting
 28 breaches of duty allegedly committed by Safeco and the Director Defendants. See Complaint
 29 ¶¶ 42, 50. The claims against Liberty Mutual do not pertain to the internal affairs or corporate
 30 governance of either Safeco or Liberty Mutual. Consequently, the exceptions to federal
 31 jurisdiction found in Section 1332(d)(9) do not apply.
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34 Accordingly, pursuant to CAFA, this Court has original jurisdiction over the subject
 35 matter of this action under 28 U.S.C. § 1332(d)(2).
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 50 ³ The corresponding removal provision contains virtually identical language, including the word "solely" in
 51 the introduction. 28 U.S.C. § 1453(d).

1 **C. Propriety of Removal**

2 This Court, which is the United States District Court for the district and division
 3 embracing the place where the state-court action is pending, would have had original jurisdiction
 4 over plaintiff's claims had plaintiff elected to file the action in federal court. Indeed, as indicated
 5 in footnote 2 above, in another case (the First Safeco Class Action) that is already pending in this
 6 Court, a different plaintiff purports to represent the same or similarly defined class and asserts
 7 virtually the same claims against Safeco and the Director Defendants. Therefore, this action is
 8 removable to this Court under 28 U.S.C. §§ 1441(a) and 1453(b).

9 **D. Service of Initial Pleadings and Timeliness of Removal**

10 Defendants may remove an action to federal court within 30 days following service of the
 11 Summons and Complaint. Murphy Bros., Inc. v. Michetti Pipe Stringing, Inc., 526 U.S. 344,
 12 350-56 (1999) (interpreting 28 U.S.C. § 1446(b)). Here, Safeco was served with the Summons
 13 and Complaint on June 3, 2008. The Director Defendants agreed to accept service, effective
 14 June 4, 2008, based on courtesy copies of the Summons and Complaint that had been emailed to
 15 their counsel on June 2, 2008. Liberty Mutual, although aware of this action, has not yet been
 16 served.

17 Accordingly, this notice of removal is timely.

18 **E. The State-Court Complaint and other Pleadings**

19 Attached to this Notice is a true copy of the Complaint which plaintiff filed in the action
 20 pending in state court. All other process, pleadings or orders served on defendants or filed in the
 21 state court in this action will be filed, together with the verification of defendant's counsel, within
 22 ten days of the filing of this Notice, as required by this Court's local rule, CR 101(b).

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NOTICE OF REMOVAL – 6
 Case No. C08-_____

DATED this 16th day of June, 2008.

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PERKINS COIE LLP

By: Joseph E. Bringman

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Green III, John S. Hamlin, Kerry Killinger,
Gary Locke, Gerardo I. Lopez, William G.
Reed, Charles R. Rinehart and Judith M.
Runstad

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ROSATI, P.C.**

By: Barry M. Kaplan by Joseph E. Bringman,

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Attorneys for Defendant Liberty Mutual
Insurance Company

M authorized

NOTICE OF REMOVAL - 7
Case No. C08-

63511-1006/LEGAL14377038.1

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Attachment

Attachment

SUPERIOR COURT OF WASHINGTON
KING COUNTY

GOTHAM INVESTORS, on behalf of itself
and all others similarly situated,

Plaintiff,

vs.

PAULA ROSPUT REYNOLDS, JOSEPH W.
BROWN, ROBERT S. CLINE, PETER L.S.
CURRIE, JOSHUA GREEN III, JOHN S.
HAMLIN, KERRY KILLINGER, GARY
LOCKE, GERARDO I. LOPEZ, WILLIAM
G. REED, JR., CHARLES R. RINEHART,
JUDITH M. RUNSTAD, SAFECO
CORPORATION, and LIBERTY MUTUAL
INSURANCE COMPANY,

Defendants.

CLASS ACTION

Case No. 08-2-18681-4 SEA

**COMPLAINT FOR BREACH OF
FIDUCIARY DUTY AND
FAILURE TO DISCLOSE**

JURY TRIAL DEMANDED

Plaintiff, by its attorneys, alleges as and for its class action complaint, upon personal knowledge as to itself and its own acts, and as to all other matters upon information and belief, as follows:

NATURE OF THE ACTION

1. This is a shareholder class action on behalf of plaintiff and the other public holders of Safeco Corporation ("Safeco" or the "Company") common stock and against Safeco's

COMPLAINT

LAW OFFICES OF
CLIFFORD A. CANTOR, P.C.
627 208th Ave. SE
Sammamish, WA 98074-7033
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1 directors and Liberty Mutual Insurance Company ("Liberty Mutual"). It challenges the sale of
 2 Safeco to Liberty Mutual and its wholly owned subsidiary Big Apple Merger Corporation ("Big
 3 Apple") in a proposed transaction (the "Sale Agreement") which protects and advances the
 4 interests of Safeco's directors and Liberty Mutual at the expense of Safeco's public shareholders
 5 and defendants' efforts to conceal material information from plaintiff and Safeco's other public
 6 shareholders in conjunction with the same. Specifically, as further alleged below, a majority of
 7 Safeco's directors will receive extensive personal compensation as a result of the Sale
 8 Agreement – compensation that they would not otherwise receive at this time absent the Sale
 9 Agreement. This conflict of interest caused these directors to be unable to fairly and thoroughly
 10 evaluate the Sale Agreement to ensure that they are in the best interest of Safeco and its public
 11 shareholders. Additionally, Safeco's directors caused Safeco to file a proxy statement with the
 12 SEC on or about May 23, 2008 (and, through the SEC, distribute to Safeco's shareholders over
 13 the Internet) which concealed material information from plaintiff and Safeco's other public
 14 shareholders.

15 JURISDICTION AND VENUE

16 2. This Court has jurisdiction over the subject matter of this action pursuant to RCW
 17 § 2.08.010.

18 3. This Court has jurisdiction over this action because Safeco is a Washington
 19 corporation headquartered in this County and because the improper conduct alleged in this
 20 Complaint occurred in and/or was directed at Washington. Moreover, as alleged in more detail
 21 *infra*, this Court has jurisdiction over each of the director defendants because they serve as
 22 directors of a Washington corporation. Additionally, the Court has jurisdiction over each of the
 23 defendants because their wrongful conduct challenged in this complaint was directed at, and
 24 intended to have its primary effect in, Washington.

1 4. This action challenges the internal affairs or governance of Safeco and hence is
2 not removable to Federal Court under the Class Action Fairness Act of 2005 or the Securities
3 Litigation Uniform Standards Act (“SLUSA”), 15 U.S.C. § 78bb(f).

PARTIES

5 5. Plaintiff Gotham Investors owned shares of Safeco common stock at all relevant
6 times and continues to own such shares.

7 6. Defendant Safeco is a Washington corporation headquartered at Safeco Plaza,
8 1001 Fourth Avenue, Seattle, Washington 98154. Safeco is an insurance holding company
9 which is licensed to provide property and casualty insurance along with related services to
10 individuals and small-to-mid-size businesses in all 50 states through its insurance subsidiaries.
11 As of February 15, 2008, Safeco had 7,057 employees located throughout the United States.
12 Safeco also sells surety bonds to contractors and businesses.

13 7. Defendant Paula Rosput Reynolds (“Reynolds”) was appointed Safeco’s President
14 and Chief Executive Officer and a director of Safeco, effective January 1, 2006 and Board Chair
15 effective May 7, 2008. Reynolds also serves on the boards of directors of Delta Air Lines,
16 Anadarko Petroleum Corporation, and the Seattle Art Museum, as well as Safeco. Before
17 joining Safeco, Reynolds was Chairman, President and Chief Executive Officer of AGL
18 Resources. As a result of the Sale Agreement, Reynolds (a) is entitled to receive a cash payment
19 of over \$17.6 million in change-in-control payments, (b) is entitled to receive a cash payment of
20 approximately \$6.2 million for her restricted stock rights, and (c) will be granted a right to
21 indemnification for acts or omissions occurring prior to the consummation of the Sale
22 Agreement. This Court has jurisdiction over Reynolds because Safeco is headquartered in
23 Washington and many of Reynolds’s actions challenged in this complaint occurred in, or were
24 directed at, this State.

1 8. Defendant Joseph W. Brown ("Brown") has served as a director of Safeco since
 2 2001. Brown served as Non-Executive Chairman of the Board from January 2006 to May 7,
 3 2008. Pursuant to the Sale Agreement, Brown (a) is entitled to receive a cash payment for his
 4 22,500 restricted stock rights which will fully vest upon the effective time of the Sale
 5 Agreement, and (b) will be granted a right to indemnification for acts or omissions occurring
 6 prior to the consummation of the Sale Agreement. This Court has jurisdiction over Brown
 7 because Safeco is headquartered in Washington and many of Brown's actions challenged in this
 8 complaint occurred in, or were directed at, this State.

9 9. Defendant Robert S. Cline ("Cline") has served as a director of Safeco since 1992
 10 and was appointed Non-Executive Lead Director on May 7, 2008. Pursuant to the Sale
 11 Agreement, Cline (a) is entitled to receive a cash payment for his 11,825 restricted stock rights
 12 which will fully vest upon the effective time of the Sale Agreement, and (b) will be granted a
 13 right to indemnification for acts or omissions occurring prior to the consummation of the Sale
 14 Agreement. This Court has jurisdiction over Cline because Safeco is headquartered in
 15 Washington and many of Cline's actions challenged in this complaint occurred in, or were
 16 directed at, this State.

17 10. Defendant Peter L.S. Currie ("Currie") has served as a director of Safeco since
 18 July 2005. Pursuant to the Sale Agreement, Currie (a) is entitled to receive a cash payment for
 19 his 4,325 restricted stock rights which will fully vest upon the effective time of the Sale
 20 Agreement, and (b) will be granted a right to indemnification for acts or omissions occurring
 21 prior to the consummation of the Sale Agreement. This Court has jurisdiction over Currie
 22 because Safeco is headquartered in Washington and many of Currie's actions challenged in this
 23 complaint occurred in, or were directed at, this State.

24

1 11. Defendant Joshua Green III ("Green") has served as a director of Safeco since
 2 July 2005. Pursuant to the Sale Agreement, Green (a) is entitled to receive a cash payment for
 3 his 11,825 restricted stock rights which will fully vest upon the effective time of the Sale
 4 Agreement, and (b) will be granted a right to indemnification for acts or omissions occurring
 5 prior to the consummation of the Sale Agreement. This Court has jurisdiction over Green
 6 because Safeco is headquartered in Washington and many of Green's actions challenged in this
 7 complaint occurred in, or were directed at, this State.

8 12. Defendant John S. Hamlin ("Hamlin") has served as a director of Safeco since
 9 2006. Pursuant to the Sale Agreement, Hamlin (a) is entitled to receive a cash payment for his
 10 2,500 restricted stock rights which will fully vest upon the effective time of the Sale Agreement
 11 and (b) will be granted a right to indemnification for acts or omissions occurring prior to the
 12 consummation of the Sale Agreement. This Court has jurisdiction over Hamlin because Safeco
 13 is headquartered in Washington and many of Hamlin's actions challenged in this complaint
 14 occurred in, or were directed at, this State.

15 13. Defendant Kerry Killinger ("Killinger") has served as a director of Safeco since
 16 January 2003. Pursuant to the Sale Agreement, Killinger (a) is entitled to receive a cash payment
 17 for his 11,825 restricted stock rights which will fully vest upon the effective time of the Sale
 18 Agreement, and (b) will be granted a right to indemnification for acts or omissions occurring
 19 prior to the consummation of the Sale Agreement. This Court has jurisdiction over Killinger
 20 because Safeco is headquartered in Washington and many of Killinger's actions challenged in
 21 this complaint occurred in, or were directed at, this State.

22 14. Defendant Gary Locke ("Locke") has served as a director of Safeco since
 23 February 2005. Pursuant to the Sale Agreement, Locke (a) is entitled to receive a cash payment
 24 for his 6,825 restricted stock rights which will fully vest upon the effective time of the Sale

1 Agreement, and (b) will be granted a right to indemnification for acts or omissions occurring
2 prior to the consummation of the Sale Agreement. This Court has jurisdiction over Locke
3 because Safeco is headquartered in Washington and many of Locke's actions challenged in this
4 complaint occurred in, or were directed at, this State.

5 15. Defendant Gerardo I. Lopez ("Lopez") has served as a director of Safeco since
6 January 2008. Pursuant to the Sale Agreement, Lopez will be granted a right to indemnification
7 for acts or omissions occurring prior to the consummation of the Sale Agreement. This Court
8 has jurisdiction over Lopez because Safeco is headquartered in Washington and many of Lopez's
9 actions challenged in this complaint occurred in, or were directed at, this State.

10 16. Defendant William G. Reed, Jr. ("Reed") has served as a director of Safeco since
11 1974. Pursuant to the Sale Agreement, Reed (a) is entitled to receive a cash payment for his
12 11,825 restricted stock rights which will fully vest upon the effective time of the Sale
13 Agreement, and (b) will be granted a right to indemnification for acts or omissions occurring
14 prior to the consummation of the Sale Agreement. This Court has jurisdiction over Reed because
15 Safeco is headquartered in Washington and many of Reed's actions challenged in this complaint
16 occurred in, or were directed at, this State.

17 17. Defendant Judith Runstad ("Runstad") has served as a director of Safeco since
18 January 1990. Pursuant to the Sale Agreement, Runstad (a) is entitled to receive a cash payment
19 for her 11,825 restricted stock rights which will fully vest upon the effective time of the Sale
20 Agreement, and (b) will be granted a right to indemnification for acts or omissions occurring
21 prior to the consummation of the Sale Agreement. This Court has jurisdiction over Runstad
22 because Safeco is headquartered in Washington and many of Runstad's actions challenged in this
23 complaint occurred in, or were directed at, this State.

24

1 18. Defendant Charles R. Rinehart ("Rinehart") has served as a director of Safeco
2 since March 2007. Pursuant to the Sale Agreement, Rinehart (a) is entitled to receive a cash
3 payment for his 1,825 restricted stock rights which will fully vest upon the effective time of the
4 Sale Agreement, and (b) will be granted a right to indemnification for acts or omissions
5 occurring prior to the consummation of the Sale Agreement. This Court has jurisdiction over
6 Rinehart because Safeco is headquartered in Washington and many of Rinehart's actions
7 challenged in this complaint occurred in, or were directed at, this State.

8 19. Defendant Liberty Mutual Insurance Company ("Liberty Mutual") is an out-of-
9 state stock insurance company headquartered at 175 Berkeley Street, Boston, Massachusetts
10 02117. Liberty Mutual is a member of the Liberty Mutual Group of Companies ("Liberty
11 Mutual Group"), a diversified global group of insurance companies and the sixth largest property
12 and casualty insurance group in the United States based on 2007 direct written premiums. The
13 Liberty Mutual Group offers a wide range of insurance products and services, including personal
14 automobile, homeowners, commercial multiple peril, commercial automobile, general liability,
15 surety, workers compensation, global specialty, group disability, assumed reinsurance and fire
16 insurance. The Liberty Mutual Group employs over 41,000 people in more than 900 offices
17 throughout the world. In connection with the Sale Agreement, Liberty Mutual formed Big Apple
18 Merger Corporation, a Washington corporation, solely for the purpose of entering into the
19 merger agreement and consummating the transactions contemplated by the merger agreement.
20 This Court has jurisdiction over Liberty Mutual because its conduct challenged in this action was
21 designed to and will in fact cause harm in this State.

22 20. The defendants identified in paragraphs 7 through 18 collectively constitute the
23 entirety of Safeco's board of directors. These 11 individuals are hereinafter referred to as the
24 "Individual Defendants."

1 21. By virtue of their positions as directors and/or officers of Safeco and/or their
2 exercise of control and ownership over the business and corporate affairs of Safeco, the
3 Individual Defendants have, and at all relevant times had, the power to control and influence and
4 did control and influence and cause Safeco to engage in the practices complained of herein.
5 Each Individual Defendant owed and owes Safeco and its shareholders fiduciary obligations and
6 were and are required to: (1) use their ability to control and manage Safeco in a fair, just, and
7 equitable manner; (2) act in furtherance of the best interests of Safeco and its shareholders;
8 (3) act to maximize shareholder value in connection with any change in ownership and control to
9 the extent consistent with governing statutes; (4) govern Safeco in such a manner as to heed the
10 expressed views of its public shareholders; (5) refrain from abusing their positions of control;
11 (6) not favor their own interests at the expense of Safeco and its public shareholders; and
12 (7) fully disclose all material events to Safeco's public shareholders. Each defendant herein is
13 sued individually and/or as a conspirator and aider and abettor and in their capacity as directors
14 of Safeco. The liability of each defendant arises from the fact that they have engaged in all or
15 part of the unlawful acts, plans, schemes, or transactions complained of herein.

CLASS ACTION ALLEGATIONS

17 22. Plaintiff brings this action as a class action pursuant to CR 23 on behalf of all
18 Safeco common stock holders (the "Class"). Excluded from the Class are defendants, Safeco's
19 directors and executive officers, members of the immediate families of the defendants and
20 Safeco's directors and executive officers, their heirs and assigns, and those in privity with them.

21 23. The members of the Class are so numerous and geographically dispersed that
22 joinder of all of them would be impracticable. As of May 23, 2008, Safeco had over 92 million
23 shares issued and outstanding.

1 24. There are questions of law and fact common to the members of the Class
2 including, among others, whether:

3 (a) the defendants have and are breaching their fiduciary duties to the
4 detriment of Safeco shareholders;

5 (b) plaintiff and the Class are entitled to an injunction and other equitable
6 relief; and

7 (c) plaintiff and the Class have been damaged and the extent to which they
8 have sustained damages, and what is the proper measure of those damages.

9 25. Plaintiff's claims are typical of the claims of the Class, since plaintiff and the
10 other members of the Class have and will sustain harm arising out of defendants' breaches of
11 their fiduciary duties. Plaintiff does not have any interests that are adverse or antagonistic to
12 those of the Class.

13 26. Plaintiff will fairly and adequately protect the interests of the Class. Plaintiff is
14 committed to the vigorous prosecution of this action and has retained counsel competent and
15 experienced in this type of litigation.

16 27. This action is properly maintainable as a class action.

17 28. The prosecution of separate actions by or against individual members of the class
18 would create a risk of inconsistent or varying adjudications with respect to individual members
19 of the class which would establish incompatible standards of conduct for the party opposing the
20 class, or adjudications with respect to individual members of the class which would as a practical
21 matter be dispositive of the interests of the other members not parties to the adjudications or
22 substantially impair or impede their ability to protect their interest.

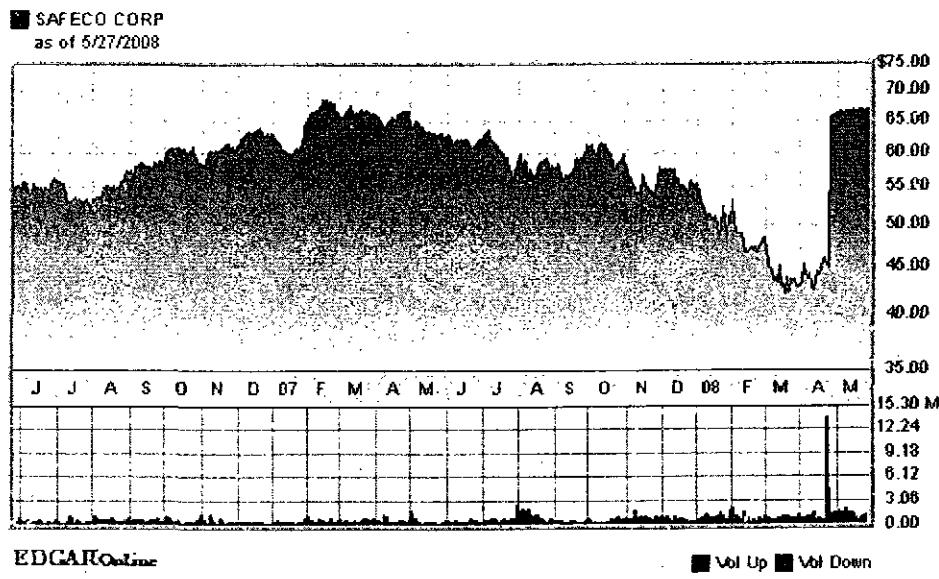
1 29. Defendants have acted or refused to act on grounds generally applicable to the
2 class, thereby making appropriate final injunctive relief or corresponding declaratory relief with
3 respect to the Class as a whole.

4 30. The questions of law and fact common to the members of the class predominate
5 over any questions affecting only individual members and a class action is superior to all other
6 available methods for the fair and efficient adjudication of this controversy.

SUBSTANTIVE ALLEGATIONS

The Inadequate Sale Process

9 31. In November 2007, Edmund Kelly, the Chairman, President and CEO of Liberty
10 Mutual Holding contacted Paula Rosput Reynolds, Chair, President and CEO of Safeco, to
11 discuss a combination of Liberty Mutual and Safeco. In mid-December 2007, Safeco's board
12 determined against exploring a sale of the Company. At that time, as demonstrated in the graph
13 below, Safeco's stock was traded in the mid to high \$50 range.



32. In January 2008, two parties, referred to in the Proxy Statement as Party A and B,
23 expressed preliminary interest in acquiring the Company at ranges of \$64-68. However, on
24

1 January 30, 2008, Safeco's board reiterated that it was not interested in pursuing a transaction
2 with any interested parties at that time. At that time, the trading price of the Company's stock
3 had deteriorated to the high \$40-low\$50 range.

4 33. A month later, after receiving an indication of interest from Liberty Mutual at a
5 price of \$64 per share, Safeco's board determined that it might be interested in selling the
6 Company, on improved price terms. Thereafter, Safeco engaged in discussions with Liberty
7 Mutual, and Parties A, B and C, all of which had contacted Safco to express an interest in
8 acquiring the Company. These discussions were primarily spearheaded by defendant Reynolds
9 on behalf of Safco despite, as alleged below, the conflict of interest inherent in Reynolds'
10 receipt of over \$23 million dollars in cash payment upon a sale of Safco, which payment she
11 would not otherwise receive at this time absent a sale of the Company. Indeed, despite the fact
12 that the Board had previously directed Reynolds to communicate its determination that they view
13 a price in a range near \$70 to adequately reflect the Board's view of Safco's value, Ms.
14 Reynolds indicated to Mr. Kelly of Liberty Mutual her belief that Safco's board would consider
15 a price of \$68.50 per share.

16 34. On April 23, 2008, Liberty Mutual and Safco announced that they had entered
17 into a definitive agreement pursuant to which Liberty Mutual will acquire all outstanding shares
18 of common stock of Safco for \$68.25 per share in cash, or a transaction value of approximately
19 \$6.2 billion. As demonstrated in the graph above, at that time Safco's stock price was at the
20 lowest the Company had traded in the two years preceding the entry in the Sale Agreement.
21 Further, the \$68.25 per share price that Liberty Mutual is paying offers an inadequate premium
22 of 1% to Safco's 52-week high trading price.

23
24

35. Notably, Safeco initiated contact with only one other bidder, referred to as Bidder D in the Proxy Statement, and did not seek to conduct a broader sale process to fully explore the realm of potential buyers for the Company.

**The Majority of Safeco's Directors and Officers Stand to Reap Enormous Profits
and Other Benefits as a Result of this Transaction that Will Not Be
Equally Shared with Safeco's Public Shareholders**

36. The Majority of Safeco's senior officers and directors stand to receive compensation, in the form of cash payments through change in control payments and restricted stock rights, and indemnification agreements, beyond what the public shareholders will receive in connection with the Sale Agreement, as follows:

(a) *Defendant Paula Rosput Reynolds* will receive change-in-control payments as set forth below in connection with the Sale Agreement.

Type of Benefit or Payment	Termination Without Cause or With Good Reason upon Change in Control (\$)
Cash Payment	2,925,000
Prorated 2008 Bonus	1,050,959
Incentive Compensation	8,079,247
280G Tax Gross-Up	5,568,462
Other Perks or Benefits	25,339
Restricted Stock Rights Acceleration	6,237,719
TOTAL	23,886,726

(b) *The Non-Employee Directors of Safeco* will receive payments for their restricted stock rights as set forth below:

Name	Number of Restricted Stock Rights
Joseph W. Brown	22,500

Robert S. Cline	11,825
Peter L.S. Currie	4,325
Joshua Green, III	11,825
John S. Hamlin	2,500
Kerry Killinger	11,825
Gary F. Locke	6,825
William G. Reed, Jr.	11,825
Charles R. Rinehart	1,825
Judith Runstad	11,825

(c) ***Indemnification*** – The Sale Agreement provides that Safeco's officers and directors will have rights to indemnification for acts or omissions occurring prior to the consummation of the Sale Agreement (the "Effective Time") for six years after the Effective Time – thereby insulating them from all liability arising from this transaction.

37. Because of these financial incentives, a majority of the Individual Defendants had a conflict of interest in deciding whether Safeco should be sold at all and, if sold, to whom.

38. Moreover, the Individual Defendants retained Morgan Stanley & Co.

Incorporated (“Morgan Stanley”) to serve as their financial advisor and render a fairness opinion on the consideration offered pursuant to the Sale Agreement despite Morgan Stanley’s apparent conflict of interest arising from Morgan Stanley providing financing services to Liberty Mutual and its affiliates for which Morgan Stanley received fees. Further, the Individual Defendants incentivized Morgan Stanley to render a favorable fairness opinion by ensuring that the majority of Morgan Stanley’s fee of \$30 million was payable only upon a consummation of the Sale Agreement.

Breach of Fiduciary Duty

39. The above facts illustrate a clear conflict of interest between the personal interest of the board and the board's fiduciary duty of loyalty and due care to Safeco's public

1 stockholders, particularly in that a majority of Safeco's Board of Directors stands to personally
2 profit from the transaction. If the board had not acted in violation of its duties of loyalty and due
3 care, the board would have actively considered allowing Safeco to remain independent or
4 conducted a more comprehensive sale process. This is a violation of the duties of loyalty and
5 due care to Safeco's public shareholders on the part of each of the Individual Defendants.

6 40. Rather than allowing the market to value Safeco as a going concern, the
7 Individual Defendants capped Safeco's value by causing it to negotiate with only five potential
8 bidders for the Company, four of which initiated contact with the Company and only one of
9 which was contacted in the first instance by Safeco.

10 41. The Individual Defendants have breached their fiduciary duties by reason of the
11 acts and transactions complained of herein, including, but not limited to, (1) their decision to sell
12 the Company to Liberty Mutual without the requisite effort to obtain the best offer possible for
13 shareholders; (2) their decision to enter into the Sale Agreement without attempting to negotiate
14 with a more comprehensive universe of buyers; and (3) their inclusion of provisions which
15 benefit the Individual Defendants to the exclusion of the public shareholders.

16 42. Liberty Mutual has knowingly aided and abetted the breaches of fiduciary duty
17 committed by the Individual Defendants. Further, the proposed sale of Safeco to Liberty Mutual
18 could not take place without the knowing participation of Liberty Mutual.

19 43. The consideration to be paid to Class members in the proposed sale is unfair and
20 inadequate because, *inter alia*:

21 (a) the intrinsic value of Safeco's common stock is in excess of the amount
22 offered by Liberty Mutual, giving due consideration to Safeco's future value as a stand
23 alone company and its value to Liberty Mutual; and

(b) The price to be paid for Safeco shares is not the result of an appropriate consideration of the value of Safeco because the Individual Defendants approved the Sale Agreement without undertaking steps to accurately ascertain Safeco's value through open bidding. By entering the Sale Agreement without actively exploring the market for potential buyers for the Company, the Individual Defendants have allowed the price of Safeco stock to be capped, thereby depriving plaintiff and the Class of the opportunity to realize any increase in the value of Safeco shares. Despite the long-term value of the Safeco acquisition for Liberty Mutual and the immediate gains received by the Individual Defendants, Safeco public shareholders will be receiving an inadequate take-over premium, and inadequate value given the true value of Safeco.

44. The terms of the Sale Agreement are inadequate to the Class, and the unfairness is compounded by the gross disparity between the knowledge and information possessed by the Individual Defendants by virtue of their positions of control of Safeco and that possessed by Safeco's public shareholders. Defendants' intent is to take advantage of this disparity and to compel Class members to relinquish their Safeco shares in the sale at an unfair price on the basis of incomplete or inadequate information.

17 45. As a result of the breach of fiduciary duties by the Individual Defendants
18 complained of herein, plaintiff and other members of the Class have been and will be damaged in
19 that they have not and will not receive their fair proportion of the value of Safeco's assets and
20 business, will be divested from their right to share in Safeco's future growth and development,
21 and have been and will be prevented from obtaining a fair and adequate price for their shares of
22 Safeco common stock.

23 46. By reason of the foregoing, plaintiff and each member of the Class is suffering
24 irreparable injury and damages.

47. Plaintiff and other members of the Class have no adequate remedy at law.

48. Consequently, absent the intervention of this Court, plaintiff and members of the
will suffer irreparable harm in that they will be forever deprived of their interest in Safeco
as set forth *infra*, will be so deprived without having the opportunity to cast an informed

Count I

BREACH OF FIDUCIARY DUTY

49. Plaintiff repeats and realleges all previous and subsequent allegations as if set forth in full herein.

10 50. By reason of the foregoing, the defendants have breached their fiduciary duties to
11 plaintiff and the Class and/or aided and abetted in the breach of those fiduciary duties.

51. As a result, plaintiff and the Class have been harmed.

Count II

BREACH OF DUTY TO DISCLOSE

52. Plaintiff repeats and realleges all previous allegations as if set forth in full herein.

16 53. The defendants have breached their duty of full and fair disclosure to plaintiff and
17 the Class by failing to disclose to Safeco's public shareholders, among many other things:

(i) According to the Proxy Statement, Morgan Stanley has provided financing services to Liberty Mutual and its affiliates and received fees in connection with such services. Also according to the Proxy Statement, subsequent to the date of its fairness opinion, Morgan Stanley served as a co-manager in a securities offering for an affiliate of Morgan Stanley. The Proxy Statement is deficient because it fails to disclose (a) the amount of the fees that Morgan Stanley has received for work it has done for Liberty Mutual and (b) any work, and the fees payable therefrom, that Morgan Stanley expects to perform for Liberty Mutual or its affiliates in the future.

1 Information with regard to any conflict of interest that the Company's
 2 financial advisor may have is material to the Company's public
 3 shareholders in determining how much weight to place on its opinion and
 must therefore be disclosed.

- 4 (ii) With regard to Morgan Stanley's *Comparable Transaction Analysis*, the
 5 Proxy Statement fails to disclose the results of Morgan Stanley's analysis
 6 considering the assumed transaction synergies (calculated at \$250 million
 per annum, net of assumed tax expenses in the *Comparable Companies*
 7 *Analysis*).

8 The methodologies employed by a financial advisor to render its fairness
 9 opinion is material to the public shareholders of Safeco in determining
 how much weight to place on the fairness opinion and must therefore be
 10 disclosed.

- 11 (iii) According to the Proxy Statement, on March 26, 2008, the Board directed
 12 Ms. Reynolds to communicate its belief that a price range near \$70.00
 13 more adequately reflected the Board's view of Safeco's value. Thereafter,
 14 on April 18, 2008, Ms. Reynolds indicated to Liberty Mutual that Safeco's
 15 board would consider an acquisition of Safeco at a price of \$68.50 per
 16 share. The Proxy Statement fails to disclose (a) the methodology used by
 17 the board to determine that a price at \$70.00 per share adequately reflected
 18 Safeco's value and (b) the basis for Ms. Reynolds' indication that the
 19 board would consider an acquisition of Safeco at a price of \$68.50 per
 20 share.

21 This information is material to Safeco's public shareholders in
 22 determining the extent to which the Individual Defendants complied with
 23 their duties of loyalty and care to protect the best interests of Safeco's
 24 public shareholders.

- 21 (iv) According to the Proxy Statement, in December 2007 and January 2008,
 22 Safeco's board determined against pursuing a business combination of
 23 Safeco with any of the four entities, including Liberty Mutual, which had
 24 expressed an interest in Safeco. However, in February 2008, the Board
 determined that it would be interested in pursuing a transaction with
 Liberty Mutual. The Proxy Statement fails to disclose (a) the board's

1 rationale for declining to consider a business combination of Safeco in
2 December 2007 and January 2008 and (b) the rationale underlying the
board's decision to reverse its earlier determination a month later.

3 This information is material to Safeco's public shareholders in
4 determining the extent to which the Individual Defendants complied with
5 their duties of loyalty and care to protect the best interests of Safeco's
public shareholders.

- 6
- 7 (v) According to the Proxy Statement, discussions with regard to a sale of
8 Safeco were held with a total of five entities, four of which contacted
9 Safeco and only one of which was contacted on behalf of Safeco. The
Proxy Statement fails to disclose the board's rationale for failing to
conduct a broader sale process to fully explore the realm of potential
buyers for the Company.

10

11 This information is material to Safeco's public shareholders in
12 determining the extent to which the Individual Defendants complied with
13 their duties of loyalty and care to protect the best interests of Safeco's
public shareholders.

14 As a result, plaintiff and the Class have been harmed.

15

PRAYER

16 WHEREFORE, plaintiff demands judgment as follows:

- 17 1. determining that this action is a proper class action and that plaintiff is a proper
class representative;
- 19 2. declaring that defendants have breached their fiduciary duties to plaintiff and the
Class and/or aided and abetted such breaches;
- 21 3. declaring that defendants have breached their duty of full and fair disclosure to
plaintiff and the Class;
- 23 4. awarding plaintiff and the Class compensatory and/or rescissory damages as
allowed by law;

5. requiring defendants to forfeit any and all compensation since the commencement of their breaches of fiduciary duties, to the extent allowable;

6. awarding interest, attorneys' fees, expert fees, and other expenses and costs in an amount to be determined, to the extent allowable; and

7. granting such other relief as the Court may find just and proper.

TRIAL BY JURY

Plaintiff demands a trial by jury of all issues so triable.

Dated: June 2, 2008 Respectfully submitted,

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